TECHNOLOGY & BUSINESS: A PLANNING GUIDE

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INTRODUCTION

New technology companies are solving real world problems and changing the way we interact with technology every day, transforming new ideas into practical, commercially viable products and services. The purpose of this guide is to provide information for the owners of new technology companies who often need assistance in working through the process of startup and the early stages of growth. These owners are generally enthusiastic about turning their inventions, ideas, technologies, and research into business opportunities and products that make an impact in the local and global marketplace, but are unsure about how to proceed.

Starting a new technology company is a formidable challenge. It requires dogged commitment, dedication, determination, persistence, and sacrifice. The vast majority of new ventures fail, even in spite of the promising nature of the technology.

This guide addresses the essential issues a new technology entrepreneur faces, including:

- Selecting or developing a business model appropriate to the product or service
- Developing the new product or service
- Financing business startup and the early stages of growth
- Finding and developing customers
- Protecting creativity or intellectual property through patents, trademarks and other means

Commercialization is the goal of most new technology entrepreneurs. It is the process of introducing a new product or service into the market. The actual launch of a new product is the final stage of new product development. The SBDC, technology transfer officials, investors, and others can assist the technology entrepreneur in determining the technology’s commercial potential and help him or her develop an appropriate commercial strategy, such as selling a license to an existing company or creating a new startup company.

A new technology entrepreneur can be anyone from someone who invents gadgets in his garage to a scientist working in a corporate laboratory. Many new technology entrepreneurs are university faculty or researchers who discover something new in the course of their work. The SBDC works with university technology transfer offices to support companies and universities to help them successfully commercialize their intellectual property. We believe that providing these services will facilitate the growth of resources and deals and help create a hub of creative commercialization in New York State. By assisting in the protection, marketing and licensing of an entrepreneur’s intellectual property, the SBDC can play a leading role in the successful transition from innovation to new enterprise.
STARTING A NEW TECHNOLOGY COMPANY

This planning guide is directed to technology startup companies in the early stages of development. It argues for a different type of business plan, developed in a different way with different components. It contains advice to both the entrepreneur starting the company and business advisors that want to help them. It should be clear who is being addressed and the availability of the advice to both parties is on purpose.

Done properly the plan will become the roadmap to the evolution of the New Technology Company and the passport and portfolio to enter the business world and discuss your vision with the investment community.

Distinction between a Technology Driven Company and a New Technology Company

We’ll start with the distinction between a “Technology-Driven” company and a “New Technology” company. These terms appear to be synonymous. They are not. One or more technologies are involved in both types of companies, but in different ways. In a Technology-Driven company, the business activities, and the product or services of that business, are already well developed and ongoing. In fact, the product or services may not have been derived from any technology. In this case, some form of technology is introduced to enhance the competitiveness of the business and in the process make it more profitable. Technology-Driven companies are those where an existing product or service is enhanced by applying a technology solution usually unrelated to the product itself. Think of a company that introduces the use of computers to replace something done in the production line of a product previously done by pencil and paper. It does the same thing but more accurately, and with less effort, and at lower cost.

In a New Technology company, a technology-based innovation leads to the development of a new product or service, and is the primary basis of a new start-up company. This planning guide is only about New Technology companies and the challenges they face.

But make no mistake about it. Technology-Driven companies have a better chance of attracting new funding because they already have a business track record and are seeking to make it more profitable. They may not appear to be as exciting, but banks and investor really like that.

Development of a New Technology Company

There are some terminology issues that have to be addressed before we can discuss the development of a New Technology company. The first is to define technology as it will be used in this document.

Technology is the application of scientific principles and/or engineering skills to solve a problem. It’s best done by scientists and engineers. While it is possible to bring a technology forward and form a business around it without a scientist or engineer involved, it’s very difficult. The credibility of the company’s business model will be suspect and the ability to answer questions posed by potential investors will be limited.

The second term to define is innovation.

Innovation is the integration of a technology solution into a business product or service. It’s really a follow-up to technology. It is in the innovation phase that entrepreneurs really should start to get serious about building a company around a product that can bring an innovative product or service to the marketplace.

It’s unfortunate that the word “Technology” ends up in the phrase “New Technology Company”. The
word “technology” is almost a legacy word. What you should be reading when you see the term “New Technology Company” is that an innovative product or service has been developed using an application of either a recent, or maybe not so recent, technology which the New Technology company intends to market. The company is what is new. Whether the technology is new or not is almost irrelevant.

Innovation and technology are not always temporally paired. One may come before or after the other. An example of where the technology came first, and long before a business product or service was realized was ARPANET technology. ARPANET was a computer network developed by the Advanced Research Project Agency (ARPA) in the 1960s and 1970s as a means of communication between research laboratories and universities.

ARPANET was the predecessor to the Internet which really only came into its own in the 1990s when browser technology was integrated into the ARPANET technology. As a result of multiple innovations on the part of the business community since 1992, the current Internet economy is roughly $3 Trillion. Because there were multiple innovations derived from the combined ARPANET and browser technology, the combined technologies are referred to as a Platform Technology. Because companies developed around platform technologies are often more successful, the term platform technology is often applied too loosely to imply a greater potential for success. It implies that many different products and services could be derived from the platform type of technology. It’s not one technology leading to one product. It’s not a one trick pony.

**Common Characteristics of a New Technology Company**

In the typical New Technology Company, the technology itself is recent so the innovative product or service is going to be new as well. The company is typically a startup. It doesn’t have to be. New innovative products or services can come from the research division of existing companies, but they are usually not small companies. The entrepreneur frequently was the developer of the technology underlying the innovation. So everything is new. A new technology in a new company with a new entrepreneur – somewhat of a perfect storm. This combination presents a number of interesting challenges both to the principals of the company and anyone trying to help them. The challenges range from the mindset and the business experience of the principals, their ability to develop a convincing story to a non-technical audience and, perhaps most important, their ability to raise funds to finance what is likely to be a protracted development plan.

**The New Technology Company Entrepreneur**

The New Technology Company entrepreneur is often also the individual who developed the technology. Typically he or she is a scientist or engineer who has spent most of his career in an academic environment and has little or no experience in the private sector. They are unfamiliar with the practices and regulations that pervade the commercial landscape and have little interest in networking with others in the same commercial space.

New Technology Company entrepreneurs frequently overestimate the marketing potential for their innovation, and underestimate the amount of skill and effort necessary for a successful marketing initiative. To them, marketing is equal to “Build it and they will come.”

In short, they will need a lot of help. If placed in the position to be one of the individuals that is approached to help, the first hurdle you should address is the trust and respect they will need to develop for
your advice. Scientists and engineers have little patience with individuals offering business advice that cannot grasp the technological concepts behind the innovation in question. Should you run into this kind of “attitude” problem, point out that you are an advocate for their business. Often you will be the only advocate who is always on their side. If they can’t explain the technological basis for the innovation behind their product to you, they won’t be able to explain it to an investor either. They will be explaining it to a business person who is really only an advocate for themself.

The Development of a Business Plan in a New Technology Business

Even though it will be very different, the “New Technology Entrepreneur” should be introduced to the concept of a business plan very early in the relationship. It will have different content and be developed in stages that correspond to the development of the business and its product(s). There are multiple reasons for starting early.

First, it will be the “Rosetta Stone” for both of you in your relationship with the New Technology entrepreneur. It’s the document wherein the technology underlying the innovation that leads to the company’s product is blended into the business related activities that will make it all happen. It’s a roadmap that outlines the route a company intends to take to initiate and then grow revenues. It’s the responsibility of both you and the entrepreneur to assure that the developing business plan is an accurate reflection of both the technological and commercial sides of the status and progress toward the goal of commercialization.

Second, it’s a work in progress document that gives any other person or persons brought into the development of the company and/or its products as to where you are, where you are going, and how you intend to get there. This could be an investor, a potential advisory board member, or key employees that are being recruited.

Third, it requires that the New Technology entrepreneur be constantly reminded of the big picture of the multiple activities necessary to bring a New Technology company into a mature profit making organization. There is a saying that goes something like “Most people study the intricate patterns that make up the vast mosaic of life and use it to guide their way. Scientists study the stones.” A properly evolving business plan is a mechanism to get the New Technology entrepreneur to look up and embrace the big picture.

Components of a Business Plan for a Traditional Business

We’ll start with a business plan for a traditional business and then use it as a point of reference. A somewhat lengthy outline below lists the typical components of such a plan for a traditional business. The reason for so much detail is that some of the same things will be required in a business plan for a New Technology company and we don’t want to go over or rephrase the details of the similarities twice. Also, the order of development of a business plan for a New Technology company will be different and the emphasis on the components will also be different. The remainder of this document will then focus on exactly what the differences are, and why, when writing a business plan for a New Technology company.
Outline of a Business Plan for a Traditional Business

**Executive Summary** – a one page summary of all the topics below. This is the first and most important section of the business plan, and it should be written last. You think about this section as the “book jacket” to your business plan – capturing the reader’s attention, illustrating a vibrant business opportunity, and presenting thoughts in a clear, concise, and convincing manner. It should include the salient points of each section of your plan, as it may be the only section reviewed carefully by a prospective lender.

**Statement of Purpose** – This is a brief statement of the business plan’s objectives. If it is to be used as an operations guide, then that statement is rather simple: This plan will be an operating and policy guide for XYZ company. In the case of a business plan to be used to solicit funds a few additional questions should be addressed here:

- What funds are being requested?
- What will the funds be used for?
- How will the funds benefit the company?
- Why does this loan or investment make business sense?
- How will the funds be repaid?

**Business Description and History** (if any) – This section describes your business and its history and should include the following topics:

- Legal Structure
- Product and/or services and potential customers
- The name of owners and/or major stakeholders
- Location of your business and whether you own or lease. Description of whether your business has land, building, and/or equipment.
- Number of employees
- The background of the business, how it started, how it evolved over time and what rate of growth you are projecting
- Your niche in the marketplace (what makes you unique)
- Any awards or accomplishments of business achievements the company received

**Products and Services** – Here the product line and services offered by the company should be described. Outline the need for the products and services and how the offering is unique. Also it is here that patent issues are addressed and potential new products are described. If a prominent part of the product, here is also where product packaging is discussed

**Marketing Plan** – A marketing plan includes an analysis of the competition, and a decisive set of strategies that will position the business and its products in the commercial marketplace in such a way to successfully meet customer needs or wants and at a profit. In a Traditional Business this is the largest section in the business plan.
Management and Operations – This section gives a brief overview of the structure of the company and presents the key management team members and their functions and strengths. The decision making process should be illustrated in an organizational chart. The education, qualifications and past business achievements of these individuals should be described, as well as their job description, compensation and benefits. Copies of the resumes of the management team should be placed in an Appendix.

Financial Analysis – If the business is seeking funding, this is the most important sections in the business plan whether it is for a Traditional Business or a New Technology Business. Historical information must be presented in a standardized format and projections must be based on industry information that can be referenced. Accuracy is key. The only reliable method of evaluating cash flow is to estimate cash inflows and outflows on a month-to-month basis. The projection of what the company’s checkbook will look like at any given point in time. Cash flow tables are vital because they reveal both the magnitude and timing of borrowing.

This is the type of plan that is used for restaurants, retail shops, medical offices, etc. Now let’s turn to the New Technology company and its business plan. The biggest thing that is missing is a Business Model. In fact, a Business Model is not even mentioned in the details that follow the underlined headings of the business plan for a traditional business.

What is a Business Model?

A Business Model is a detailed description of how a business is going to make money on its product, whether that product is a tangible item, a service or some combination of the two. But it’s more than that. Perhaps most important, especially to potential investors, is how the business is ultimately going to make money without going broke in the process. When you drill down into the details, the Business Model describes the path, both in product development and the funding to support it, which leads to the products sale in the marketplace for a profit. The path involves a detailed description of the relationship between dollars, time and events. It involves the use of project management tools (e.g. Microsoft Project, part of the expanded Office suite) and the Business Model is documented in the form of Pert diagrams, Gantt charts and cash flow spreadsheets.

A Business Model and a Business Plan live together. They synchronize. A Business Model lives inside the Business Plan of a New Technology company, but it is more separate than the other components.

And in a New Technology company, the Business Model comes first, and is at least in full swing or even fully developed before the rest of the Business Plan can be completed. The Business Model is all about the product and its development. Not just how the product is being developed by why it is being developed in the way proposed. The other components of the Business Plan of a New Technology Company are focused on the infrastructure of the company before, during and after the product is on the market. The reason the Business Model comes first can be seen in the somewhat analogous situation that arises when the proverbial boat is built in the basement of the builder and then he can’t get it up the stairs and through the basement door to the outside. In New Technology companies, the product is frequently so new that the infrastructure of the company should await the final stages of the products development, lest the New Technology company be ill-designed and ill-equipped to most effectively commercialize it.

So how come the Business Model was never identified as so important before? Because in a traditional business, the Business Model is often trivial or obvious. It doesn’t require much thought or attention because the model has already been established in previous similar businesses.
If a medical practice is to be opened, patients will be treated and they will pay for the treatment. The business models for a law practice, a restaurant, or a gas station have similarly been well established. But a Business Model for a New Technology Business is different. Mostly because the product is new. It's never been done before.

New Technology Product Development

To make matters even more tenuous, not only is the product new, it has most likely not been fully developed. Now we are getting to the eye of our perfect storm – New Technology Product Development – how to do it and how to pay for it. A New Technology product is developed in stages as shown below:

- An Idea
- A Working Prototype
- A Field Testing Prototype
- A Marketing Prototype
- A Final Market Product

These are not the stages in the development of a New Technology company. This is just the product itself. Developing a new technology product in a New Technology company is an intricate integration process. It is tempting to develop the New Technology company first. Don’t do that. The New Technology company should be developed in stages that coincide with the stages in the development of the New Technology product.

The Idea

Let’s start with the idea. Clearly an idea is not a product and a business at the idea stage is a start-up business without a product. All too often, an idea or series of ideas are considered to be an investable entity. They are not. An idea alone has no intrinsic value. As we all well know, banks don’t give loans to start-ups and investors don’t invest where there is no value. The idea will have to be advanced to the prototype stage in the product development cycle before you will even begin to attract an investor.

The Working Prototype

Here’s where patents come in. They are the first step in the path that will lead to some funds to help you develop a working prototype. An idea can be patented and the patented idea may have an intrinsic value to a potential investor. But even an investor will require a clearly defined path to a marketable prototype. The patent helps at arriving at a valuation of the company, but it’s not enough to get an investor to invest. It’s one of those “necessary but not sufficient” things. A complete set of full patents (not provisional patents – we will get to those later), on a viable set of ideas, has an average street value of one million dollars. Filing for a complete set of patents will cost the entrepreneur an average of $20,000. Circumstances vary considerably from idea to idea and company to company, but these are reasonable estimates.

Now on to getting from the idea to the working prototype. For innovations derived from technology, there are federal grants called SBIR and STTR grants. SBIR stands for “Small Business Innovation Research” and STTR stands for “Small Business Technology Transfer”. One of the most important aspects of these federal
grants is that the funds can be used to develop prototypes, including working prototypes. Other than your own finances and maybe some money from friends and family, SBIRs and STTRs are probably the only source of funds to help you develop a working prototype. Both of these federal grants are really the subject for a separate document and won’t be discussed further here other than to say that both types of grants are overseen by the Small Business Administration. It’s a good thing that they do exist because many New Technology company start-ups would never be able to secure the funds to get their products from the idea phase to the working prototype stage. Maybe the best part about SBIR and STTR funds is that you don’t have to pay it back and you don’t have to give up any equity in the New Technology Company. (See Appendix E on page 60 for information about the SBIR and STTR programs)

It’s not completely a free ride. You will need at least three things besides the idea when you apply for one of these federal grants – an assessment of freedom to operate, a provisional patent, and a business model.

The first two, an assessment of freedom to operate and a provisional patent will require the services of a patent attorney. Total costs are in the $2000 to $3500 dollar range. Determination of freedom to operate is a survey of existing patents to make sure the patent you have in mind will not infringe on an already existing patent and that the product you have in mind has not be covered by an existing patent. The provisional patent (a recently introduced concept) is mostly a declaration of the scope of the full patents to be filed in the future. In fact, there is a time limit – one year. The full patent has to be filed within one year after the provisional patent is filed. A provisional patent is not a reviewed patent other than to assure that all the information required is in the provisional patent application. All the boxes have something in them.

The reason why a provisional patent is needed at all is because a federal grant application requires disclosure of some of the details of the patented idea. In principle, it’s a public disclosure, so the information in the grant application becomes public knowledge and prior art, and therefore is not patentable. Grant reviewers are not likely to sign none disclosure agreements. (See Appendix C on page 56 for information on patents and trademarks from the U.S. Patent and Trademark Office)

The Role of the Business Model in SBIR and STTR Proposals

The New Technology Company’s business model will be a critical part of its SBIR or STTR grant proposal and it is often not done well. If the business model in the proposal is not well developed and convincing, you won’t get the grant.

The research portion of an SBIR or STTR proposal should be designed with the business model in mind, therefore the business model should be developed first and should drive the protocols for the research portion. A business model describes the rationale of how an organization creates, delivers and captures value. In its simplest form at this stage in a products development, this means designing a laboratory or working prototype, then a test marketing prototype and finally a method to produce and deliver marketable products that can be sold for a profit. The insights in the business model give the grant reviewer the prospective to evaluate the research portion of the proposal and how the research proposed will lead to a commercial product.

The Field Testing Prototype

Now back to the stages in a new technology products development. The next stage after the Working Prototype is the Field Testing Prototype. The problem with Working Prototypes can be multiple. There is
usually only one, and it’s on life support via other instruments in a laboratory somewhere. It’s bulky, fragile, and oft times ugly. It will cost you $10,000 to build another one but even if you did, it wouldn’t survive any kind of field testing. A field testing prototype doesn’t have to be any prettier than the working prototype, but it does have to function on its own without breaking down. After all the research done with the SBIR grant, it should also be significantly cheaper and/or closer in cost to the target price for the commercial product projected in your business model.

Any potential investors that showed a passing interest in your patent should be alerted that you are about to enter the field testing stage. The potential investors will probably not come up with any money, but their advice could be invaluable, such as exactly where and how it should be tested.

The Marketing Prototype and the Final Market Product

If you are fortunate, the marketing prototype and the final market product will be the same. But they rarely are. Even after a product is launched, it often goes through refinements that make it cheaper (to make, not a cheaper price), less fragile, smaller, and/or more reliable. Consider the iPhone, whose sixth version is about to be introduced. By the time the New Technology company’s commercial product is available, funding in the form of equity investments and sales revenues are available to pay for new and improved products.

When will an Investor Invest?

This leads us back to the subject of equity investment. Just when will an investor seriously consider investing in a New Technology Company? Here is a checklist:

- The patent status is acceptable. The patents are full patents issued or pending, not provisional patents. Provisional patents are only time place holders. The acceptability of the claims has to be agreed to by a patent examiner in a full patent.

- The business model makes sense. The financial section clearly identifies how the investors’ capital will be used.

- The field prototype performed well and a marketing prototype has been built. The plans for the design of the commercial product have been agreed to, and the cost of production has been estimated.

- A valuation of the New Technology Company has been agreed to between the principals of the company and the investors. This will establish the size of the equity stake that the investor will receive in exchange for the investors’ funds. If the New Technology Company is valued at $5,000,000 and the company is seeking $500,000 in funding, the investor will get a 10% stake in the company in exchange. (See Appendix A on page 51 for a list of resources with information about valuing new technology companies)

- Potential customers have said they will buy some of the product of the New Technology Company
Customer Development

The last item on the investor’s checklist raises the concept of Customer Development. It’s relatively unique to New Technology companies. The closest analogy is the sampling of new products at food trade show. The representative of the food company that is handing out the samples invariably asks “How do you like it?” The question serves two purposes. If the response is positive, the potential customer will likely want to know when and where the product can be purchased. It’s pre-sale advertising. If they don’t like it, and are willing to tell the representative why, an adjustment to the recipe may be appropriate. If it’s too salty, lower the salt content, etc.

It’s usually impractical for New Technology Companies to hand out samples, but they can ask focus groups of potential customers some key questions that will inevitably be useful to spread the word about their new product and make any additional adjustments before any kind of a sales campaign. So a customer development focus group should be shown a market prototype, and then would be asked:

• If they would buy it
• At what price
• How many would they buy
• If they had any friends they think might be interested

Then do the whole thing over again with their friends.

If this subset of potential customers are ambivalent about the new product, or worse don’t like it, they will probably tell you why and then it’s back to the drawing boards. It is always very telling if the New Technology company entrepreneur can’t specifically identify any potential customers and bring them in to participate in a focus group. It’s a challenge to their “everybody will want one” position. Fine, bring in a few of them, we want to talk to them.

This is a Customer Development model that is especially useful for totally new products. A serious initiative in customer development is a surrogate for a marketing study. It’s hard to do a marketing study on something that doesn’t exist. Classical marketing studies don’t work because there is no data on a product that never existed before. The best you can do is study the products that exist that attempt to address the same market need. Such information is rarely persuasive until a side-by-side comparison between the new product and existing products are performed. It’s almost not worth the trouble.

Building a Business Plan for a New Technology Business

There are some some differences between a business plan for a traditional business and one for a New Technology business. The components below are included in a traditional business plan, with the things that change for a New Technology business plan highlighted. *(A detailed general business plan strategy can be found beginning on Page 16)*

Components of a Business Plan for a New Technology Business:

Executive Summary – a one page summary of all the topics below. This is the first section of the business plan, and it should be written last. You should think about this section as the “book jacket” to your business plan – capturing the reader’s attention, illustrating a vibrant business opportunity, and presenting thoughts in a
clear, concise, and convincing manner. It should include the salient points of each section of your plan, as it may be the only section reviewed carefully by a prospective lender. This component stays the same with the caveat that the sections to be summarized will be different.

**Statement of Purpose** – The earlier versions of the business plan should identify the product and an overview of how its overall development will be funded. Loans and their repayment is not an issue. The focus is on equity funding whether it be funds from the principals, private placement, or seed funding. The prime audience for the business plan is the investor. It's really a preamble to the Business Model but focuses on funding sources and amounts.

**Business Model** – This is a new section and the most important one in the New Technology company's business plan. The business model is how your business is going to make money without going broke in the process with an excruciatingly detailed description of events, time and money. A project management approach is strongly recommended including Pert Diagrams, Gantt Charts and summary cash flow tables.

**Financial Analysis** – This section should be viewed as an executive-summary-style textual narrative which discusses the financial components of the Business Model even if it is somewhat redundant with information in the Business Model section. Because it is closely linked to the Business Model this section is moved up in position in the plan. If the business is seeking funding, this is a very important section in the business plan whether it is for a Traditional Business or a New Technology business. Historical information must be presented in a standardized format and projections must be based on industry information that can be referenced. Accuracy is key. The only reliable method of evaluating cash flow is to estimate cash inflows and outflows on a month-to-month basis - the projection of what the company’s checkbook will look like at any point in time. Cash flow tables are vital because they reveal both the magnitude and timing of borrowing.

**Business Description and History** - If there is any history a brief description should be here. This section should be updated with each business plan revision. The remainder below is the same as in a traditional business plan. Keep it brief. Investors don’t really pay much attention to this section until they are ready to actually invest, but it’s still important to include:

- Legal Structure
- The name of owners and/or major stakeholders
- Location of your business and whether you own or lease. Description of whether your business has land, building, and/or equipment.
- Number of employees
- Any awards or accomplishments of business achievements the company received

**Products and Services** – Here the product line and services under development by the company should be described as they stand at the writing of the plan. Leave room for changes as the product development progresses through the prototype phases. Outline the need for the products and services and how the offering is unique. Also it’s here that the status of any patents and any patent issues are addressed and potential new products are described. If a prominent part of the product, here is also where product packaging is discussed.
**Customer Development** – This section replaces the market analysis aspects of the marketing plan. The assumption is that you can’t do a classical market analysis on products that don’t exist yet. The parts of the marketing plan that remain includes an analysis of the competition, including any potentially competitive products not on the market yet, and a decisive set of strategies that will position the business and its products in the commercial marketplace in such a way to successfully meet customer needs or wants and at a profit.

**Management and Operations** – This section gives a brief overview of the structure of the company and presents the key management team members and their functions and strengths. The education, qualifications and past business achievements of these individuals should be described, as well as their job description, compensation and benefits in an Appendix. Copies of the resumes of the management team should be placed in the same Appendix. Describe the current management only. Avoid describing personnel build outs. Investors are investing in product development and are not interested in paying for additional personnel.

**Final Advice**

There is a temptation to put your business strategies and their timing and cost in the most positive light possible when presenting them to potential investors. While you should be as positive as possible in your presentation, unrealistic timelines, offhanded assumptions about outside resources and regulatory bodies, and low estimates of cost can be disastrous. Most investors started successful businesses of their own. Much of that success was because they were realistic about these issues, or found out the hard way that they were wrong. Strive for accurate, realistic estimates of these items. The credibility of your leadership as the head of your New Technology company is at stake.
YOUR BUSINESS PLAN

Every business requires a plan. Why should you go to the effort of creating a written business plan? There are three major reasons:

• The process of putting together a business plan, including the thought you put in beforehand, forces you to take an objective, critical, and unemotional look at your business project in its entirety.

• The finished product—your business plan—is an operating tool which, when used properly, will help you better manage your business and work toward its success.

• The completed business plan is a way to communicate your ideas to others and provides the basis for your financing proposal.

The importance of planning cannot be overemphasized. By taking an objective look at your business, you can identify areas of weakness and strength, pinpoint needs you might otherwise overlook, spot problems as they arise, and begin planning how you can best achieve your business goals. It may even help you to avoid some problems altogether.

This guide has been designed with these considerations in mind. It is important that you complete as much of the work as possible. A professionally prepared business plan won’t do you any good if you’re not familiar with every aspect of the plan. This deep understanding comes from being involved with your plan’s development from the very start.

No business plan, no matter how carefully constructed, will be of any value unless you use it. Going into business is a very serious matter in terms of your future and your family’s future—over half of all new businesses fail within the first two years of operation. A major reason for failure is lack of planning.

Use your plan. Don’t put it in a bottom drawer of your desk and forget about it.

A business plan can help you avoid going into a venture that is doomed to failure. It can help you see if your proposed venture is marginal.

Finally, your business plan provides the information others need to evaluate your venture, especially if you need to seek outside financing. A thorough business plan automatically becomes a complete financing proposal which will meet requirements of most lenders.

Suggested Business Plan Outline

Cover Sheet

• Name of business
• Names of owners
• Address and phone numbers of business
TECHNOLOGY & BUSINESS: A PLANNING GUIDE

Statement of Purpose

The Business
- Description of business
- Market
- Competition
- Location
- Advertising
- Management
- Personnel
- Application and Expected Impact of Loan (if needed)
- Summary

Financial Data

Supporting Documents
- Personal resumes
- Personal financial requirements and statements
- Cost-of-living budget
- Credit reports
- Letters of reference
- Job descriptions
- Letters of intent
- Copies of leases, contracts, legal documents, and anything else relevant to the plan

Cover Sheet

The cover sheet should:

- Identify the name of the business and the date of the plan
- Identify the location and telephone numbers of the business or where the owners can be reached
- Identify the person who wrote the business plan.

The cover sheet should not be elaborate, but should be neat and attractive. If you have a logo, use it. If the plan is to be submitted as a financing proposal, use a separate cover sheet for each bank or capital source you want to submit it to.

Statement of Purpose

The first page should state the plan or proposal objectives as simply as possible. If for your sole use, the statement should be a brief description of how you intend to use the plan.

If the plan is also to be used as a financing proposal, the statement of purpose becomes more complex. It should include responses to the following questions:

- Who is asking for the money?
- What is the business structure (sole proprietorship, partnership, corporation, etc.)?
- How much money is needed?
- How will the money be used?
- How will the funds benefit the business?
Why does the loan or investment make sense?
How will the funds be repaid?

The deal you are proposing — the loan or investment, its use and expected effects on the business, and how you will repay it — should be supported by the rest of the plan.

If you are not seeking a loan, the plan should still support and justify the use of your own money (or the money of partners, friends, family).

Keep the statement short and businesslike. It will usually be no longer than half a page, but may be longer if necessary. Use your judgment.

Contents Page

The Contents Page should follow your Statement of Purpose. The remainder of the plan should be devoted to elaborating on and supporting the Statement of Purpose. A business plan, even for a modest project, generally runs to 20 pages or more.

There are three main sections of your plan:

• The Business
• Financial Data
• Supporting Documents

Description of Your Business

This is the most important, most complex part of your business plan. It should make a clear statement of:

• What the business is (or will be)
• What market you intend to service, the size of the market, and your expected share
• Why you can service that market better than your competition
• Why you have chosen this particular location
• What management and other personnel are available and required for the operation
• Why (if appropriate) borrowed money or an equity investment will make your business more profitable

These six considerations are crucial. They are the written policy of your business — rules you should not deviate from without compelling reasons. Since policy gives stability and direction to your business, it requires a great deal of thought and planning.

Your business will reflect your personality and abilities — not someone else’s. In describing your business idea, aim at clarity and simplicity. A rule of thumb: If you can’t describe your idea clearly and simply, you haven’t thought it through.

Deciding what your business is — and where you want it to be in five years — is the most important decision you will have to make. If a small business is involved in more than one activity, your judgment of what the central activity or central activities are is crucial. Your entire planning effort is based on your perception of what business you are in. Be sure to take the time to think this decision through.
The description of the business includes:

- Type of business: Is your business primarily merchandising, manufacturing, or service?
- The status of the business: Is your business a start-up, an expansion of a going concern, or a takeover of an existing business?
- The business form: sole proprietorship, limited liability company (LLC), partnership, or corporation?
- A statement of why your business will be profitable
- The date you plan to start the business
- The hours your business will be open (if your business is a seasonal business, describe how the hours will be adjusted seasonally).

Knowing exactly what your business does and how it operates enables you to plan for profits effectively. Before you begin to consider profit-making, you must be able to clearly state the aims and goals of your business. As the business progresses, the question of how to make profits must be continually asked.

For a New Business

Your description of the business should contain responses to the following questions:

- Why will you be successful in this business?
- What is your experience in the business?
- Have you spoken with other people in this kind of business? What were their responses?
- What will be special about your business?

Many businesses fail to take advantage of the insights and experience of actual and potential competitors. Your best single source of information, they will often give you much valuable advice for nothing more than a chance to share their expertise. Talking with competitors (and observing their business practices) will also help you define what the special advantages of your own business could be.

Two more questions to consider:

- Have you spoken with prospective trade suppliers to find out what managerial and/or technical help they will provide?
- Have you asked about trade credit?

Trade credit is a source of funds. “Net due in 30 days” allows you to use the supplier’s money for the 30 days—like a non-interest-bearing loan. This means, however, that you may forgo any frequently available cash discount if you pay the bill within 10 days. Taking the discount your supplier offers can represent a substantial savings. If you can borrow the funds somewhere else at a lower rate of interest, you should do so. However, such credit is often not available until a business has been in operation long enough to establish a reputation for paying on time.

Many suppliers also offer free services as an inducement to buy their products. For instance, store fixture manufacturers give free layout advice, and utility companies give hints on how effective use of light can create more sales. Two additional considerations:

- If you will be doing contract work, what are the specific terms of the contract? (Reference any firm contract or letter of intent, and include it as a supporting document.)
- How will you offset any slow payment by the customer?
Especially important for anyone contemplating contract work is to find out how and when you will be paid. Get a feel from other contractors about their experiences. Remember that a slow-paying customer can put you out of business if you aren’t prepared. If you find that slow payment is a fact of life, plan ahead to compensate for the shortfall.

For a Takeover

Your description should contain a brief history of the business you plan to take over and should respond to the following questions:

- When and by whom was the business founded?
- Why is the owner selling it?
- How did you arrive at a purchase price for the business?

Businesses that are strong and growing are infrequently offered for sale, and most sellers may give—not necessarily deliberately—misleading reasons for selling their business. Protect yourself. Ask your banker to check out the business. This is a routine activity for the bank, which has the means to find out such information. You can also ask your lawyer or accountant who are often experienced in this area.

Pricing a business requires professional expertise and ethics. Paying for a professional appraisal may turn out to be an excellent investment, as it not only establishes a fair price for the business but also provides justification for the price if outside financing is needed. Include a copy of the appraisal as a supporting document. The price should reflect business assets, the rate of expected income on your investment, and perhaps a “goodwill factor,” such as patents which can be capitalized, a reputation for excellent service, or an advantageous lease.

Since you will be repaying the purchase price out of profits, make sure that you get what you are paying for. Consider the following:

- What is the trend of sales?
- If the business is going downhill, why? How can you turn it around?
- How will your management make the business more profitable?

These last two items should be supported by income statements and tax returns. If a business is sliding downhill, there may be reasons which aren’t obvious. Discuss the owner’s reasons for selling. Ask the bankers involved with the business. It is difficult to restore a tarnished reputation. It can’t be done overnight.

Some additional thoughts as you check out the business: Have you evaluated and aged the inventory? Checked with trade creditors? Aged the receivables? What is the condition and age of operating machinery? Does the business owe money—and if it does, will you inherit the liabilities? Check with state, federal, and local agencies concerning outstanding taxes due.

Determine exactly what you are buying. You are planning to put your money on the line. Don’t be afraid to ask for advice before you commit yourself to any deal. A good attorney is essential at this point to help determine what you are buying and to make sure that the terms of the sale are in your favor.

For Purchasing a Franchise

Many small business owners have been helped in getting a start by investing in a franchise. You may want to consider such an investment.
Most franchises require some or all of the following:

- Initial franchise or license fee
- Training costs
- On-site start-up and promotional costs
- Periodic royalties
- Charges for the building, equipment, inventory, supplies
- Bookkeeping charges (occasionally)

Along with the franchise costs, you should have on hand working capital for at least three months of operation, and preferably more. You can determine working capital needs by a simple formula: multiply living expenses by three and add total franchise costs.

Keep in mind that a parent company is involved in franchising for two basic reasons: to expand, and to raise capital. So if you have a reasonably good credit record and pass all financial requirements, most franchisers will bend over backwards to get you on their team. The help that franchisers provide usually includes assistance with business plans, loan application help, introduction to lending sources, and, in many cases, they serve as guarantor of the loan.

Remember that the price of the franchise does not always reflect the actual cost of the business. Additional costs can include down payments on the land, building, and equipment, fixtures, signs, and many other items.

Be sure you understand the requirements of your cash investment. Do a thorough search of the company in which you will be investing your money. Federal franchise laws require that all franchisers give the franchisee a full and complete disclosure, including a description of the business, training programs, services provided, number of franchises, financial statements, and audits. They must fully describe all that will be required of the franchisee.

It is imperative that you, as the potential franchisee, retain legal counsel to review all contracts, agreements, and other documentation that may be required before signing them.

The Market

To generate an ongoing sales flow, you must become knowledgeable about your market — the people who will be buying your service, product, or merchandise.

Basic market considerations are:

- Who is your market?
- What is the current size of the market?
- What percent of the market will your business expect to capture?
- What is the market’s growth potential?
- As the market grows, does your share increase or decrease?
- How will you satisfy your market?
- How will you price your service, product, or merchandise to make a fair profit and also be competitive?
Define Your Market

In marketing terminology, define your target market—the target of all your efforts. You do this by considering:

- Who needs your product or service?
- Who buys the kind of merchandise you stock?

It may be necessary to alter your service, product, or merchandise mix to meet the needs of the market you have targeted.

However, you must first know exactly who your market is. Perhaps it is defined by geographic location, socioeconomic or ethnic factors, age, gender, or other conditions.

Whatever your market elements, make sure you identify them. One way to do this is to simply list all important characteristics, and then, by using Census data or other available information, find out to what extent these characteristics are present in different areas.

You must then measure your target market. As simple as this may sound, remember, having too few customers puts you out of business. Although your business will receive cash from four sources—sales, loan proceeds, sale of fixed assets, and proceeds of new investment—it will ultimately rely on sales as the main source of money. (If there are no sales, there is no business.)

You can obtain information about the size of your market from your Chamber of Commerce, the SBDC, trade publications, marketing consultants, other business persons, libraries, schools and colleges. Census data, which you can find at your nearest library or online, is an excellent source of information.

Get help in assessing the market from such sources rather than trying to guess by watching passing traffic and hoping for the best. Good marketing strategy must be planned, and it must be based on good information.

When you have a feel for your market, answer the following questions:

- How will you attract and keep this market?
- How can you expand your market?

These two critical questions lead to other ideas to consider, such as how and where to advertise, the suitability of your location, and how attractive your office or store is to the clientele you hope to draw.

The second aspect of your marketing strategy concerns price:

- What price do you anticipate getting for your product?
- Is the price competitive?
- Why will someone pay your price?
- How did you arrive at the price? Is it profitable?
- What special advantages do you offer that may justify a higher price?

To make a profit, your business must make more on sales than it spends (both directly, as in cost of goods sold, and indirectly, as in overhead and selling costs). Many businesses flounder because they lose sight of this simple truth.
A Brief Note on Credit

Will you offer credit to your customers? If you do, you are, in effect, making a loan to them. Can you afford to do this? Do you have to extend credit? Can you evaluate credit risk? Can you collect? Can you afford to write off bad debts?

Customer credit can represent an unexpected cash drain on the business. If you must offer credit, make sure that you plan how to absorb its effects. Offering credit to your customers costs you money, especially if you then have to borrow funds to cover these accounts. It may strangle your business by tying up funds you could possibly use for other purposes.

Pricing

Keep in mind that pricing reflects a total package of product and service and expenses.

There is no point in pricing yourself out of the market, nor is there anything to be gained from a price which puts your business in the red.

Competition

If you have decided on your target market, and it is large enough to be profitable, and it contains reasonable expansion possibilities, the next step is to identify and assess your competition. Consider these questions:

• Who are your five nearest competitors?
• How will your operation be better than theirs?
• How is their business: Steady? Increasing? Decreasing? Why?
• How are their operations similar and dissimilar to yours?
• What are their strengths and weaknesses?
• What have you learned from watching their operations?

This section should enable you to make your business more profitable by picking up good competitive practices and avoiding your competitors’ errors. Opening a business in a market that is already more than adequately serviced is a common error. Carefully evaluating the competition will sometimes lead you to alter your basic business strategy or modify operations to compete more effectively. This should be an ongoing practice, since market shift and success attract competition.

Learn from competitors’ mistakes, and go after the market segment currently being inadequately served. A good practice is to identify an unserved or underserved target market, identify the needs of that market, and go after it. An advantage for a small business is its ability to operate profitably in a market too small for big businesses to consider. Checking out the competition is a valuable extension of your marketing efforts.

Location

Proper site location can help your business make money. If you are going into business, first try to identify the ideal site, then figure how close you can come to it, remembering that rent is computed as the combination of space and advertising.
Information about specific geographic areas is available from Chambers of Commerce, trade sources (such as magazines and associations, planning commissions, bankers, and lawyers), and industrial development commissions. They may also have information about tax breaks and financing incentives for businesses that will employ substantial numbers of people in towns under their commission.

Do not go into business in a given spot simply because the price is low. Rent and purchase prices are usually fixed by market forces, and a low price can reflect low desirability. Although for some operations, this consideration is beside the point, for others—merchandising operations in particular—it is a very important factor.

Each business has its own location needs. If your enterprise is manufacturing or wholesale, low rent and easy access to transportation routes are very important. For most retail operations, however, exposure to people and accessibility are most important. Traffic studies may be available for the area you are considering. Sources of this information may include the state or local highway agencies, the local library, or Chambers of Commerce. Your local banker may well be one of your most useful information sources. Some locations seem to be “jinxed,” and most likely he or she will know why and will tell you.

In this section of your business plan, you should answer the following:

- What is your business address?
- What are the physical features of your building?
- Is your building leased or owned? State the terms.
- If renovations are needed, what are they?
- What is the expected cost? Get quotes in writing from more than one contractor. Include quotes as supporting documents.
- What is the neighborhood like? Does zoning permit your kind of business?
- What kind of businesses are already in the area?
- Have you considered other areas? Why is this one desirable for your business?
- Why is this the right building and location for your business?
- How does this location affect your operating costs?

The key to correct site selection: keep in mind that a bad site can put you out of business, while a good site can increase your profits. Once you get started, or if you are already located, keep a constant eye on changes in your location—new roads may be built, populations may shift, zoning ordinances may change. Such changes could mean you need to alter your business plan.

Advertising

Effective advertising can help owner-managers of small companies achieve benefits such as increased sales, sustained sales volume, and reduced selling costs. The secret to such results is not so much in the amount of money budgeted for advertising, but in how it is spent.

Advertising can be one of small businesses’ most effective weapons in an intensely competitive business climate. It can offer a creative and effective way for retailers to bid for their fair share of the market in the face of stiff competition and rising costs.

Advertising is not an end in itself, but rather, a means of providing customers with convincing reasons why they should patronize a particular business.
Businesses should always build their advertising messages around the particular advantages they are prepared to offer their customers. Usually, these advantages relate to price and quality of products, convenience and accessibility of store location, or quality of service.

Planning for Timely Advertising

While frequently considered a temporary expedient, advertising should be based on long-range planning, which includes more immediate plans and goals. Moreover, it should be consistent throughout the year as a cumulative sales effort. Although this planning should be the controlling factor, advertising plans should be flexible.

Because small businesses have limited funds, they must plan carefully to obtain maximum effectiveness from their advertising expenditures. Advertising should be planned in relation to the overall merchandising program. It should also be coordinated with such specific management activities as buying, inventory balancing, and acquisition of new customers. In other words, the effectiveness of a limited advertising budget can be greatly strengthened if advertising goals are planned in relation to the total merchandising and selling program.

Timing is possibly the most important single consideration in the planning of effective small business advertising. Timing involves adjusting the advertising plans not only to seasonal sales patterns but also to the business’s special days and to the community’s or shopping district’s special events. Coordination of the advertising program with the buying schedule is also necessary. A promotional advertisement which is not backed up by adequate merchandise can do more harm than good.

Media, Copy, and the Internet

It is becoming a truism that you will not be taken seriously as a business without an Internet presence. Businesses should explore fully the opportunities of presenting themselves to customers via the Internet. An Internet presence can be inexpensive and effective.

The newspaper is a medium used by many small businesses. Other effective media for business are direct mail, radio, television, handbills, billboards, and increasingly, the Internet—through a company website. Also don’t discount the effectiveness of a well-designed sign for your location.

The key to success in direct-mail advertising is a carefully selected and maintained mailing list. Small businesses should not overlook the use of radio and television where local rates are low enough to fit the budget of a small shop. These media can be used occasionally with great effectiveness to advertise outstanding promotional events.

Each business must determine the type of advertising copy most appropriate to the identity or image they are seeking to establish in the public mind. All advertising copy benefits from observing the basic rules of eye appeal, simplicity, brevity, straightforwardness, and credibility. An advertising message that is obscure, confusing, or misleading may be successful in the short run, but generally is bound to fail.

To be effective, an ad must:

- Attract attention of the reader or audience
- Offer visual persuasion showing how the product will benefit the customer
- Show why the product is necessary and why it should be purchased at this time
- Encourage purchase, giving reasons for buying, particularly from the business doing the advertising.
Sources of Advertising Help

Businesses can find many outside sources of assistance, such as the following:

- The advertising departments of newspapers offer assistance in preparing copy, art work, and layout. They are often willing to advise the business on general merchandising and sales promotions planning.
- The firms that supply the retailer with merchandise often provide advertising materials free of charge, grant advertising discounts, and participate cooperatively in the business’s advertising by sharing a portion of the cost.
- Direct-mail agencies compile specialized mailing lists which the business can use to contact selected customer groups. These agencies also assist in the preparation of mailing literature.
- Trade newspapers and magazines often provide useful information to the business manager about advertising practices. Trade associations, Chambers of Commerce, and Better Business Bureaus also provide information on advertising and advertising ethics.
- Some advertising agencies specialize in servicing small businesses, and typically will take full responsibility for all aspects of advertising.

In addition, businesses should keep well informed about their competitors’ advertising. The larger ones usually have effective advertising, and a study of the methods they use, the merchandise they feature, the style of their copy, and the size and layout of their advertisements can provide helpful ideas.

Budgeting

Advertising has three basic goals:

- Sell goods and services
- Create a positive business image
- Allow the advertiser to compete successfully

Budgeting for advertising is necessary for maximum returns. The amount to spend depends on many factors, such as specific promotional objectives, store location, competition, age of store, and past success in attracting customers. Often, businesses discover that what they need to spend on advertising and what they can afford to spend are not the same. They must study their own situation carefully and, within the limits of their financial capabilities, allocate funds on a planned basis over an extended period, usually six months.
MANAGEMENT

Roughly 98 percent of small businesses fail because of managerial weakness; fewer than two percent of the failures are due to factors beyond the control of the people involved.

Your business plan must take this into account. If you are preparing a financing proposal, you should make sure that your prospective financial source is aware of the steps you have taken or are taking to correct any weaknesses in your managerial staff. If you are to use your business plan to the fullest, you should highlight both management strengths and weaknesses.

There is no known cure for incompetence, but there are direct cures for inexperience: Acquire the necessary experience yourself, or find a partner or employee who does.

In preparing the Management section, you should cover five areas:

• Personal History of Owners and Key Managers
• Related Work Experience
• Duties and Responsibilities
• Salaries
• Resources Available to the Business

Properly treated, these five will help make a proposal convincing and a business plan useful. The aim is to spot areas of potential weakness before problems arise and threaten to put you out of business.

Personal History of Owners

In this segment, include responses to these questions:

• What is your business background?
• What management experience have you had?
• What education (including both formal and informal learning experiences) have you had which has a bearing on your managerial abilities?
• Personal data: age, where you live and have lived, special abilities and interests, reasons for going into business. Keep in mind that your family will be affected by your decision to go into business. Try to assess the potential impact. While they may be supportive now, will they continue to be supportive a year from now?
• A personal financial statement must be included as a supporting document in your business plan if it is a proposal for financing.

Bankers and other lending sources want to see as much collateral as possible to secure their loan. Be forewarned: Under most circumstances, the personal credit worthiness of the principals will be a major concern for the banker. Also, you will undoubtedly be expected to sign personally for the loan. This means that your personal assets could be taken if the business fails — even if it’s set up as a corporation.

Related Work Experience

This segment is an expansion of the experience factors mentioned earlier. It requires, but is not limited to, information on the following:

• Direct operational experience in this type of business
Managerial experience in this type of business
Managerial experience acquired elsewhere—whether in totally different kinds of businesses, or as an offshoot of club or team membership, civic activities, church work, or some other activities.

While some managerial skills are transferrable, others are not. Managerial experience and expertise that is not carefully balanced can cause serious problems. The talents required of a financial specialist are quite different from those of a used-car salesman. A combination of both sets of talents in one individual is rare.

Duties and Responsibilities
Once you have filled in the experience and skills—and have a feel for the weaknesses—of the proposed management, this segment is relatively simple.

Make sure that you spell out in advance:
- Who does what
- Who reports to whom
- Where the final decisions are made

Allocating duties and responsibilities is critical. If the chain of command is unclear to your employees, you will have personnel problems. This is a major responsibility of management and must not be evaded under the guise of “we can work it out later when we see where the problems are.”

Salaries
When completing this section, include salaries of management and all employees. Don’t forget to include employee benefits as well as salaries (e.g., medical, pension, Social Security, insurance coverage). Be realistic when computing upper-level salaries.

Knowing what you need, as distinguished from thinking you know what you need, takes effort. One sure way to damage a small business is to take the money out for family necessities. If your business can’t afford to pay you a living wage, and you have no other income or savings, you had better reconsider your deal.

Resources Available to the Business
All businesses, no matter how small, need the services of:
- Accountant
- Lawyer
- Insurance broker

If you don’t have any of these services, make sure you get them immediately!

Other sources of assistance include:
- Small Business Development Centers
- Business, trade, civic organizations, which often have a pool of talent available to their members
- Small Business Administration technical assistance and SCORE programs
Avail yourself of all of these. And don’t forget: Your banker can be among the most helpful partners you have. If you borrow money, the bank has a vested interest in the success of your business.

You won’t necessarily have to use all of these secondary resources, but it is a good idea to know what help is available if you need it.

Summary

This section should make you aware of the necessity of developing your management skills, and, for the skills you do not possess, of accessing all outside resources (legal, financial, etc.) available to you. Keep in mind the necessity of managing your business rather than letting the business manage you. Constantly review and re-evaluate the status of your business. In this way, you will drastically diminish the odds of failure. Keep this section short, direct, and honest.

Personnel

Businesses stand or fall on the strength of their personnel. Good employees can make a marginal deal succeed; poor employees can destroy the best business. Studies have consistently shown that out of 100 customers who stop patronizing the average store, more than 70 do so because they didn’t get prompt, courteous attention.

Here are some questions to think about in determining your hiring needs:

- What are your personnel needs now? In the near future? In five years?
- What skills must your staff have?
- Are the people you need available?
- Do you need full or part-time staff?
- Will you pay them salaries or hourly wages?
- Will you offer fringe benefits?
- Will you pay for overtime?
- Will you have to train people? If so, at what cost to the business?

Application and Expected Impact of Loan

This section is important, whether you are seeking a loan or planning to finance your deal yourself. In determining how much money you will need and for what purposes, do not rely on guesses when exact prices are available. Specify how you arrived at your figures. It may be helpful to make a list.

Fill out your reasonable choice. It may be important to you to have a luxury item or two, but weigh the cost. A tabular worksheet is particularly useful for a start-up business and can be used whenever a purchase of additional equipment is contemplated.

Make sure that this section contains responses to the following:

- How is the loan or investment to be spent? This can be fairly general (working capital and new equipment, inventory, supplies).
- What is the item to be bought?
• Who is the supplier?
• What is the price?
• What is the specific model name and number of your purchase?
• How much did (or will) you pay in sales tax, installation charges, and freight fees?

Your banker may be interested in using whatever it is that you are buying as collateral for the loan. By having a list, your loan can be processed faster.

Consider the possible advantages of leasing some of the capital equipment you need, and definitely look into the advantages of renting rather than owning your business building. If you have the money to buy, owning may (or may not—ask your accountant) be less expensive than leasing. If you are short of cash, a lease arrangement may enable you to ease cash problems by lowering your investment in fixed assets (perhaps a sale/lease-back deal). Leases also have greater flexibility. As your business grows, you can often make changes more readily. It is also possible to save money on taxes by deducting lease payments as business expenses.

Most important, ask yourself how the loan will make your business more profitable.

Interest is an expense which reduces profits. If you propose borrowing money or investing your own, you must know how the money is going to work for you.

Make sure it earns more than it costs! A well-thought-out business plan can be an asset to any small business. If you have followed the steps outlined in this guide, you should be able to develop a good, workable plan.

Financial Plan

To effectively manage your finances, plan a sound, realistic budget by determining the actual amount of money needed to open your business (start-up costs). The first step to building a sound financial plan is to devise a start-up budget. Your start-up budget will usually include such one-time only costs as major equipment, utility deposits, down payments, security deposits, etc.

A start-up budget should allow for these expenses:

• Personnel (costs prior to opening)
• Occupancy (lease, rent or mortgage)
• Legal/Professional Fees
• Equipment
• Supplies
• Salary/Wages
• Income
• Utilities
• Payroll Expenses
• Internet
• Licenses/Permits
• Insurance
• Advertising/Promotions

The operating budget is prepared when you’re actually ready to open for business. The operating budget will reflect your priorities in terms of how money will be spent, the expenses you will incur and how you will
meet those expenses. Your operating budget should also include money to cover the first three to six months of operation. It should cover the following expenses:

- Personnel
- Lease/Rent/Mortgage
- Loan Payments
- Legal Fees
- Accounting
- Supplies
- Salaries/Wages
- Dues/Subscriptions/Fees
- Repairs/Maintenance
- Insurance
- Advertising/Promotions
- Depreciation
- Payroll Expenses/Payroll Taxes
- Internet
- Travel/Entertainment
- Miscellaneous

The financial plan should also describe the type of financing you’re seeking, the amount of money you’re looking for, how you plan to use these funds and the preferred terms for repayment.

The financial plan will be the tool prospective investors, bankers, and even you will use in order to determine the feasibility of the business you are presenting. If the business already exists, it should illustrate the current financial status of your business and represent your best estimate of its future operation. If the business is new, a projection will suffice. The results presented should be both realistic and attainable. The financial forecasts should come in the form of three-year cash flow and balance sheet statements.
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## CASH FLOW PROJECTION

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### Cash In-Flows
- Sales
- Other Income

### Total In-Flows

### Cash Out-Flows
- Cost of Goods Sold
- Rent/Mortgage
- Owner's Salary
- Other Salaries
- Payroll Taxes
- Advertising & Promotion
- Utilities
- Loan Payments (current)
- Loan Payments (previous)
- Telephone
- Office Expense
- Dues & Subscriptions
- Accounting
- Insurance
- Professional fees
- Internet
- Repairs & Maintenance
- Licenses & Permits
- Travel & Entertainment
- Legal fees
- Bank charges
- Miscellaneous

### Total Out-Flows

### Net Cash Flow

### Beginning Cash Balance

### Ending Cash Balance
### Pro-Forma Balance Sheet (Opening Day of Business)

#### ASSETS
- **Cash**
- **Accounts Receivable**
- **Inventories**
- **Prepaid Expense**
- **Other Current Assets**

#### TOTAL CURRENT ASSETS

#### FIXED ASSETS
- **Land**
- **Leasehold Improvements**
- **Equipment**
- **Vehicles**
- **Other Fixed Assets**

#### Subtotal Fixed Assets

#### Less: Accumulated Depreciation

#### TOTAL FIXED ASSETS

#### TOTAL ASSETS

#### CURRENT LIABILITIES
- **Accounts Payable**
- **Current Portion of Long-Term Debt**
- **Accrued Expenses**
- **Other Current Liabilities**

#### TOTAL CURRENT LIABILITIES

#### LONG-TERM DEBT, net of current portion

#### OWNER’S EQUITY
- **Paid-In Capital**
- **Retained Earnings**

#### TOTAL OWNER’S EQUITY

#### TOTAL LIABILITIES & OWNER’S EQUITY
## Pro-Forma Income Statement

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### Gross Profit

### Operating Expenses

- Cost of Goods Sold
- Rent/Mortgage
- Owner’s Salary
- Other Salaries
- Payroll Taxes
- Advertising & Promotion
- Utilities
- Telephone
- Office Expense
- Dues and Subscriptions
- Accounting
- Insurance
- Professional fees
- Internet
- Repairs & Maintenance
- Licenses & Permits
- Travel & Entertainment
- Legal fees
- Bank Charges
- Miscellaneous
- Depreciation
- Interest

### Operating Expenses

### Net Income
GENERAL BUSINESS CONCEPTS

Advertising as Part of Your Marketing Plan

Marketing and advertising are often mistaken for one another. Advertising is actually part of the marketing process. Advertising includes all activities in the paid promotion process, whereas marketing includes planning what, where, how, and to whom you will sell your product or service.

Putting together an advertising campaign for your business should entail a clear idea of:

- How much to spend
- What type of media to use
- What market area to reach
- How often to run any ads

If you make decisions haphazardly or use a “seat-of-the-pants” approach, the results will probably show it.

To help organize a cohesive plan, it is wise to commit your ideas and decisions in the form of a written advertising plan. This helps you identify areas that need to be looked at in developing an advertising campaign. And it gives you a written reference that you can and should periodically review during the course of the year.

Marketing Plan Format

Although there is no one marketing plan format for all businesses, a plan can be developed using the following topic list as a guide:

- Advertising Objectives. What are you trying to achieve? Establishing a particular identity for your project, such as “the most dependable” or “lowest price” (often called positioning), or simply trying to increase sales?

- Advertising Strategy. This should contain the overall methodology to meet advertising objectives. For example, if the primary objective is to convey the message that your product is “the most dependable,” the strategy should explain how this is to be carried out.

- Creative Strategy. This contains guidelines or specifics to assist in the creative aspects of advertising. Creative aspects include slogans, themes, use of graphics and colors, logos, copy guidelines, and mechanical specifications (e.g., typestyles and sizes, use of photography, and details of reproductions).

- Media Plan. This should identify the media mix (combination of print, broadcast, and other). A media schedule details the types of media that should be used for advertising throughout the year. This may be generic and contain only types of media that will be used, such as the Internet, radio and newspapers, or specific and contain types of media and corresponding identities, such as WXYZ Radio and the Daily News. The media budget includes costs associated with each ad placement (cost of airtime, newspaper space, magazine placement). The media budget is then used as part of your advertising budget.

- Advertising Budget. This has two components: the media budget and the production budget. The production budget contains all costs associated with production of advertisements. Typical items include: time and materials from in-house staff (normally not included if your company does not cross-charge departments), photography, purchased services such as typesetting or use of consultants,
or the entire creative and production charge if you use an advertising agency. Transfer the total to your master budget, where you can represent it as either a total advertising line item or break it down into media and production components.

**Overall Promotional Strategy**

The primary goal of advertising is to position your company and product in the mind of the potential customer. Advertising is one of three major promotion methods. The others are personal selling and public relations.

**Personal Selling**

Personal selling is the dominant form of promotion, done through sales clerks, telemarketing, and/or field salespeople. Personal selling is flexible and enables greater control over the sale, since questions can be answered, the sales pitch can be customized, and the sale can be closed. Many customers build strong bonds with salespeople, counting on them for in-depth information on a product, on industry trends, and on special treatment in pricing and order lead times. For these reasons, it is necessary to maintain adequately trained salespeople and keep them well informed about your current products, and your competitors’ products as well.

Salespeople must know how much flexibility they are allotted for adjusting prices, modifying standard product offerings, extending credit, and promising delivery dates. The ability to respond to customer inquiries helps build confidence. Many companies assign titles such as marketing representative, marketing specialist, or sales engineer to indicate this type of authority.

Salespeople are often responsible for customer support in addition to getting orders. This allows valuable input to the company that could affect other sales. Good sales techniques can forge strong customer-company relationships and can result in repeat business and secondary promotion through word of mouth. Friendly, knowledgeable salespeople can be one of your best promotion assets.

Sales promotion includes activities supporting personal selling. These include brochures, fliers and catalogs, novelties, displays, and trade shows.

**Public Relations**

Public relations includes any type of publicity that is generally not paid for, and that seeks to create interest or favorable recognition for the company and its products or services. Public relations provides an economical way to enhance your company’s image. The disadvantage: You have little or no control over how much of your message gets through.

Many activities present excellent public relations opportunities; these include new product announcements, giving or receiving awards or significant contracts or grants, hiring new key personnel, as well as stunts, shows, exhibits, grand openings, guest appearances by celebrities or dignitaries, sponsorships, and fundraisers.

For most public relations activities, the company must take the initiative to generate media interest. In most cases, this involves preparing and distributing a press release describing the activities, and including photographs, when available.
The Four “Ps” of the Marketing Mix

Promotion is only one component of marketing, more specifically, the marketing mix, which consists of Four Ps: Promotion, Product, Place and Price. Marketing involves managing decisions about the mix, that is, type and amount of promotion, product, place, and price.

Promotion

Promotion consists of your overall strategy for putting your product or service in front of the appropriate buying public and creating an environment in which sales result. In considering all of the elements of promotion (marketing, advertising, public relations, etc.), do not overlook the Internet, potentially and actually the most powerful business promotion tool to arrive in decades. Increasingly, almost every business, if it is to be taken seriously, will have an Internet presence in the form of a website. Your SBDC business adviser can explore with you the opportunities and options the Internet offers your business.

Product

Product refers to the goods and services that your company provides. You need to define your product in terms of the target market.

Typical key product decisions include:

- Product features
- Accessories
- Packaging
- Warranty
- Service
- Installation
- Instructions and/or training

Pay close attention to trends, and minimize the possibility of making product decisions based on fads. Product decisions are not only initially important, but must be updated to reflect changing consumer wants and needs.

Place

Place refers to the where your product or service is distributed, or where your customer comes in contact with you.

For retail establishments, location is the primary factor. Obviously, a retail store should be accessible to the target market and have adequate parking, if necessary. Other location pluses include frontage exposure and proximity to other major, non-competing retail stores.

Other types of businesses must decide whether to sell through dealerships, distributors, mail order, jobbers, the Internet, or a combination of methods.

Price

Prices should conform to the overall company pricing strategy. Ask yourself: Does your company have a low price strategy, an at-market strategy, or upscale market strategy?
How does your pricing compare to that of your competitors? If your pricing is consistently higher, does your product offer recognizable differences that will justify the additional price? If so, maybe this is something you should bring out in your advertising.

**External Factors Affecting the Market Mix**

We have just described the four internal factors that you can control as a business manager. This marketing mix is central to your marketing strategy. But there are also external factors—technological, economic, societal, political, legal, and natural—that you cannot control.

**Technological Factors**

Introduction of new technologies, and obsolescence of old technologies, has a direct impact on the marketing mix by making a continuous stream of new products available which are priced for, promoted in, and sold to new markets.

An example of a major new resource created through advancements in technology is the Internet, made possible through developments in integrated circuit technology, the spread of personal computers, and the conversion of an advanced defense-oriented system to civilian purposes.

Technological advances in areas such as biotechnology, medicine, chemistry, automation, metals, and advanced materials provide the knowhow for similar development for countless new products.

The Internet is another example of a technology producing profound change in the ways in which we do business and conduct our lives.

**Economic Factors**

The state of the economy influences demand for particular products, and determines how they are sold and promoted and at what price they are offered.

A sluggish economy decreases consumer demand for most products. Increased advertising may be required to stimulate sales.

Carefully monitor economic indicators, such as the Consumer Price Index, interest rates, and unemployment rates, and make adjustments to the marketing mix as needed.

**Societal Factors**

Cultural and social customs, values, and lifestyles require special attention. You may need to take into account issues of multiculturalism, religion, economic status, health, diet and nutrition, crime, and public opinion.

Responding to societal wants and needs with the right product at the right time gives your company a competitive edge.

**Political and Legal Factors**

Government policies, regulations, and legal actions at federal, state, and local levels can have a dramatic effect on all aspects of the marketing mix.
Two examples of government regulations that impact the marketing mix are those related to product labeling and to the environment. Alcohol and tobacco products must bear special warnings on their labels; where and to what age group they can be sold are heavily regulated. Environmental regulations have placed mandates on industry to develop products that are not harmful to our environment.

**Natural Factors**

Factors such as geographic location, weather and climate, and availability of natural resources all can influence your marketing mix.

The agriculture industry, for example, requires not only a good geographic location for the type of product being produced, but good weather during growing seasons. These conditions will influence the type of products and growing season yield and price. The occurrence of natural disasters such as floods and hurricanes not only can create hardship for the agricultural producer, but can also result in unexpected delays or depletion of expected agricultural products for companies selling or processing them.

**Infrastructure Factors**

Finally, the cost and availability of transportation, communication, and energy dictate how markets will be accessed, and how much it will cost to produce and transport products.

High-quality, reliable roads, railways, air transportation, and utilities must exist to enable large-scale economic activity. Improvements must constantly be made to accommodate increasing demand.

**Developing a Marketing Plan**

To develop a marketing plan, your company should formulate a marketing strategy which identifies target market, marketing objectives, and marketing mix. A marketing strategy defines the game plan for your business. It provides information about your markets and how you intend to penetrate them. It defines the character of your business—for example, as an innovator, challenger, or follower.

While the marketing strategy outlines constraints under which your business will operate, the marketing plan details how the strategy will be carried out. For example, a clothing retailer should provide information on promoting the latest trends in men’s sportswear in the marketing plan.

**Format**

As with the advertising plan, no one marketing plan format is ideal for every business. The following topic list, however, provides a useful guide for constructing a marketing plan:

- **Mission Statement.** Describe your business purpose, its goals and objectives, and specific strategies to reach them.

- **Product/Service.** Identify each of your products and/or services, their cost to you, specific characteristics (including competitive advantages and disadvantages), and expected annual sales volume.

- **Market.** Provide a complete demographic analysis of the customers in each market, including market size. Identify current or projected market or industry trends, as well as information from supporting market studies or test markets.
• Distribution. Identify how products will reach the customer, including labeling, packaging, and shelving information. If you will use distributors, include a list of distributors and satisfaction level from previous experience (if applicable). If you plan to offer cooperative advertising programs with them, include guidelines. Identify details on incentives and sales quotas, and on the handling and returning of goods.

• Competition. Identify competitors by divisions, product lines, and markets. Include competitive strengths and weaknesses. Identify and compare marketing techniques.

• Pricing. Develop price schedules, including discounts, where applicable. Include comparative price lists of competing products, and explanations of price variations.

• Marketing. Provide guidelines for developing your advertising plan. For example, will you do advertising in-house or hire an agency? Do you have preferences in advertising media? Be sure to identify any planned marketing events, such as seasonal sales, new product announcements, and promotions. Provide guidelines for advertising expenditures.

• Sales Forecast. Include a detailed sales forecast for the year. Identify sales commission plans and expected sales quotas.

• Action Plan. Identify major marketing activities, their priorities, completion schedule, and the people or organizations responsible for carrying them out.

• Production. Include product production information, if applicable, to ascertain availability of products in the face of projected demand. Identify contingency plans to increase product availability, if required.

The marketing plan should be a pivotal document for developing your advertising plan. Re-evaluate and update your marketing plan regularly so it is always up to the moment and can be used reliably.

Putting It All Together

Managing an effective advertising program for a business requires a great amount of research and planning. While larger companies devote an entire staff to advertising responsibilities, smaller companies should delegate advertising responsibilities to at least one individual. This advertising specialist should be (or become) knowledgeable in advertising media—in particular, rates and coverage areas.

Advertising should not be a one-time event at the time an ad is placed, but rather a continuous process. Databases of media information should be maintained and updated frequently so that when this information is needed, it is complete and up to date. You can use media directories such as Standard Rates and Data, available in the reference section of many libraries, or call or write or visit the website of the sales department of any newspaper, magazine, radio station, television station, cable company, or other medium.

Past advertising effectiveness should be evaluated to determine which strategies have worked in the past, enabling you to adjust the marketing mix. Don’t forget to adjust your advertising messages to conform to changes in the external environment, as well as competitive advertisements.
Develop an advertising budget from the bottom up, by determining true costs of planned advertising activities, rather than by simply allocating an arbitrary dollar amount for your total advertising effort. This gives the most accurate cost projection, and enables you to better identify true costs for future advertising budgets.

Above all, use good business sense. Although advertising requires a substantial share of a company’s financial resources, it also projects a lasting image of your company, its products, and services for years to come.
ACCOUNTING AND RECORD KEEPING

“If you don’t understand the need for good records, you don’t have enough experience to be starting a business.”
— Anonymous

This quotation emphasizes the importance of accounting and record keeping. Many businesses have fail because the owners did not maintain the records necessary to allow for sound management of the business.

Why Keep Good Bookkeeping Records?

The Internal Revenue Service requires that everyone in business keep records. “The law does not require any special kind of records. You may choose any system that is suited to your business and that will clearly show your income,” says the IRS.

Good record-keeping also helps you monitor the business for planning, controlling, and budgeting purposes. As an owner, you must plan for the future of the business, based on financial knowledge rather than guesswork. Good business decisions are made from timely and accurate information about the company.

Up-to-date bookkeeping records should provide useful data for you to make intelligent decisions to operate your business successfully. Your records should yield information such as:

- sales information and operating results
- fixed and variable costs
- profit and loss
- inventory levels
- data comparisons - current & prior
- financial statements
- tax returns and reports to regulatory agencies

What System Should You Use?

Small business owners should use a simple and practical bookkeeping system. Because owners are usually busy with daily operations, it is imperative that the bookkeeping not be cumbersome.

A good system should be:
- simple to use
- easy to understand
- reliable
- accurate
- consistent
- timely

Cash and Accrual Methods of Accounting

Before we consider the fundamental elements of bookkeeping systems, let’s talk about cash and accrual methods of accounting.

Using the cash method of accounting means you record your sales at the time you actually receive the cash. You also record your expenses when you pay out the cash. This method follows the cash flow in and out
of your business and is used by most small businesses because of its simplicity.

Under the **accrual method** of accounting, you would record all sales and all expenses when the service is performed or the goods are delivered, regardless of when payment is received or made. Using this method requires the use of an account for “receivables” and another for “payables” in your records to allow you to keep track of what is owed to you and how much cash you owe.

You may use what is known as the **hybrid method**, which incorporates both methods: Using the cash method during the year and the accrual method at year-end allows you to accurately state your income because you can record unbilled sales and expenses in the year they have actually occurred. An “account receivable” and “account payable” would again be necessary. This method is preferred by businesses with 30-day credit accounts because it allows a more accurate accounting of profit and loss without the bother of keeping these two extra accounts throughout the year.

Any of these methods is acceptable. It is up to you to decide which one best suits your situation.

**Elements of Bookkeeping**

Currently, there are many bookkeeping systems to choose from on the market—all fulfill the six requirements of a good system. Choose a system with rules and methods for collecting, processing, and summarizing financial and economic data that is useful in your decision making.

Any bookkeeping system should include at least the following:

- business checkbook
- chart of accounts
- daily summary of cash receipts
- disbursements journal
- monthly summary of cash receipts and disbursements

**Storage Medium**

Although there is no requirement to keep your records in bound books, you should use either pre-packaged forms or columnar paper designed for bookkeeping purposes. Your records are your tool for the present and future management of the business.

**Business Checking Account**

The first step in setting up your system is to open a separate checking account. Shop around to learn which financial institution charges the price you want to pay and offers the services you need for your operation. Banks are competitive, and prices for services can vary.

Take into consideration the location, reputation, hours of operation, and friendliness of the bank you select. You may be interested in “one-stop shopping.” If your business grows and at some later date you are looking for funding, cultivating a good banking relationship will be a priority.

**Visa/MasterCard Privileges**

If you plan to offer credit to your customers through Visa/MasterCard, you will want to ask the bank if they provide this service and what the bankcard discount would be. Offering Visa/MasterCard allows your
customers to buy without having to pay cash. There is no risk to you of customer no-payment. This security does not come without a cost. The bank charges a percentage of the ticket price, which is called the bankcard discount, which is usually determined by the annual dollar amount of credit sales generated through your firm. For the initial year, a percentage is assigned and is adjusted each year thereafter accordingly.

**Business Checkbook**

Once you have opened the checking account, you will want to use it for all “cash in and cash out.” All money you receive, whether from sales, loans, personal equity advances, or other sources, should be deposited into the checking account. All payments, including deductible expenses and personal withdrawals, should be made by check. This gives you internal control over your most precious asset — cash.

Each deposit made and check written must also be recorded in your business checkbook. Be sure to keep deposit slips and sales invoices or statements on file. These will provide documentation of your business transactions and supply an “audit trail,” should the Internal Revenue Service ever decide to audit your company.

**Reconciling Your Bank Statement**

A basic principle of good recordkeeping is reconciling your bank statement with your checkbook each month. Normally, because of timing differences, your checkbook balance and the bank statement will not agree if your business has been active. You may have made deposits after the date of the bank statement or written checks that have not yet been cashed. It is also possible that the bank made special debits and credits to your account and included them on the bank statement but that these have not yet been entered into your records. Reconciling your bank statement to your checkbook is the only way to prove your cash account. The balance in your checkbook and the balance on the statement must be adjusted to the true cash balance, with the items causing the difference indicated. Below is an illustration of how to reconcile your bank statement:

**Sample Bank Reconciliation as of January 31, 2006**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance on bank statement</td>
<td>1,609.83</td>
</tr>
<tr>
<td>Add deposits not credited:</td>
<td></td>
</tr>
<tr>
<td>1/27</td>
<td>701.33</td>
</tr>
<tr>
<td>1/30</td>
<td>380.65</td>
</tr>
<tr>
<td>Subtotal</td>
<td>1,081.98</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2,675.53</td>
</tr>
<tr>
<td>Subtract outstanding checks:</td>
<td></td>
</tr>
<tr>
<td>Check # 88</td>
<td>66.70</td>
</tr>
<tr>
<td>Check # 89</td>
<td>9.80</td>
</tr>
<tr>
<td>Check # 92</td>
<td>212.47</td>
</tr>
<tr>
<td>Check # 93</td>
<td>150.00</td>
</tr>
<tr>
<td>Subtotal</td>
<td>438.97</td>
</tr>
<tr>
<td>Adjusted balance per bank statement</td>
<td>2,236.56</td>
</tr>
<tr>
<td>Balance shown in checkbook</td>
<td>2,240.56</td>
</tr>
<tr>
<td>Add deposit of 600.40 for 1/8 entered as 594.40 (difference)</td>
<td>6.00</td>
</tr>
<tr>
<td>Subtotal</td>
<td>2,246.56</td>
</tr>
<tr>
<td>Subtract bank service charge</td>
<td>(10.00)</td>
</tr>
</tbody>
</table>
Adjusted checkbook balance .......................... 2,236.56

Chart of Accounts

To achieve an efficient bookkeeping system, you must set up a separate account for each item that you plan to record. Every account is titled and numbered and classified as asset, liability, owner’s equity, revenue, or expenses. This procedure is known as selecting a chart of accounts for your business. Following is a model:

**XYZ COMPANY Chart of Accounts**

**ASSETS (100-199)**
- 100 Cash
- 110 Inventory
- 120 Equipment

**LIABILITIES (200-299)**
- 200 Loan(s) Payable
- 210 Sales Tax Payable

**OWNER’S EQUITY (300-399)**
- 300 Jane Doe, Capital
- 310 Jane Doe, Drawing

**REVENUE (400-499)**
- 400 Merchandise Sales
- 410 Service Sales

**EXPENSES (500-599)**
- 500 Purchases
- 510 Rent Expense
- 520 Utilities Expense
- 530 Salaries Expense
- 540 Interest Expense
- 550 Supplies Expense
- 560 Advertising Expense
- 570 Miscellaneous Expense

When a business transaction occurs, it must be entered into your records; the amount is entered as an increase or decrease in these accounts. For example, $150 of merchandise sold is entered into the Merchandise Sales account, increasing the Revenue. Recording the deposit of the $150 into the checking account increases the Assets - Cash account.

The accounts keep a tally of the monetary activities of your business.

There are no standardized account titles. You will want to select titles that clearly and precisely indicate the nature of the account. The accounts are numbered using at least a three-digit system to allow space for 100 account titles within each classification. However, you should have only as many accounts as necessary to keep tabs on your business operation.
Daily Summary of Cash Receipts

Not all cash received is income. Cash can come into a business from many sources, including sales income, bank loans, personal advances, interest earned, sale of equipment, and other. Every transaction involving the receipt of cash must be recorded in your bookkeeping system.

To accomplish this, use a Cash Receipts Journal. The form can vary according to the needs of your company. Typically, column headings are used to provide flexibility in identifying affected accounts. Remember that any sales on credit are not entered into a Cash Receipts Journal. This journal is used only to record cash actually received. Following is a model:

**Cash Receipts Journal**

<table>
<thead>
<tr>
<th>Date</th>
<th>Explanation</th>
<th>Sales</th>
<th>Sales Tax</th>
<th>Other</th>
<th>Total Received</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/1</td>
<td>Merchandise</td>
<td>152.55</td>
<td>10.68</td>
<td>0.00</td>
<td>163.23</td>
</tr>
<tr>
<td>6/5</td>
<td>Service</td>
<td>80.84</td>
<td>5.66</td>
<td>0.00</td>
<td>86.50</td>
</tr>
<tr>
<td>6/12</td>
<td>Merchandise</td>
<td>179.84</td>
<td>12.59</td>
<td>0.00</td>
<td>192.43</td>
</tr>
<tr>
<td>6/26</td>
<td>Service</td>
<td>115.00</td>
<td>8.05</td>
<td>0.00</td>
<td>123.05</td>
</tr>
<tr>
<td>6/30</td>
<td>Bank Loan</td>
<td></td>
<td></td>
<td></td>
<td>1,000.00</td>
</tr>
<tr>
<td>6/30</td>
<td>Total Cash</td>
<td>662.00</td>
<td>46.34</td>
<td>1,000.00</td>
<td>1,708.34</td>
</tr>
</tbody>
</table>

Date  | Explanation       | Sales  | Sales Tax | Other | Total Received |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>6/30</td>
<td>Total Cash</td>
<td>662.00</td>
<td>46.34</td>
<td>1,000.00</td>
<td>1,708.34</td>
</tr>
</tbody>
</table>
**Disbursements Journal**

You must enter daily all expenditures made in cash or checks. These payments from company funds may be made for deductible and nondeductible disbursements. For a particular expense to be deductible when computing your taxable net profit, it must be an “ordinary and necessary” expense incurred in your trade or business for an item that is not a capital asset. A capital asset has a life of more than one year and is subject to special IRS rules in expensing and/or depreciating when you compute profit and loss on your tax return.

Since this journal accounts for all cash out of the business money, it is critical that each disbursement be carefully recorded and supported with objective evidence, usually in the form of a business document such as a supplier’s invoice. Following is a model:

<table>
<thead>
<tr>
<th>Date</th>
<th>Paid To</th>
<th>Date</th>
<th>Paid To</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/1</td>
<td>ABC Advertising</td>
<td>6/7</td>
<td>Mark Baker</td>
</tr>
<tr>
<td>Check</td>
<td>Acct #</td>
<td>Account Title</td>
<td>Amount</td>
</tr>
<tr>
<td>224</td>
<td>560</td>
<td>Adv. Exp.</td>
<td>85.00</td>
</tr>
<tr>
<td>6/9</td>
<td>National Grid</td>
<td>6/17</td>
<td>General Supply</td>
</tr>
<tr>
<td>Check</td>
<td>Acct #</td>
<td>Account Title</td>
<td>Amount</td>
</tr>
<tr>
<td>226</td>
<td>520</td>
<td>Util. Exp.</td>
<td>125.80</td>
</tr>
<tr>
<td>6/20</td>
<td>Jane Doe</td>
<td>6/24</td>
<td>NYS Sales Tax</td>
</tr>
<tr>
<td>Check</td>
<td>Acct #</td>
<td>Account Title</td>
<td>Amount</td>
</tr>
<tr>
<td>228</td>
<td>310</td>
<td>Drawing</td>
<td>250.00</td>
</tr>
</tbody>
</table>

**6/30 Total Payments: $1,534.61**

Note: Two non-deductible disbursements were made—one to New York State to turn over the sales tax collected, and one to Jane Doe for a personal withdrawal.
Monthly Summary of Cash Receipts and Disbursements

It is important to have information available in summary form with year-to-date balances for each account. These balances provide the data to create financial statements, prepare government reports, and make decisions for operating and controlling the business. Following is a model:

510 Rent Expense Ledger

<table>
<thead>
<tr>
<th>Date</th>
<th>Increase</th>
<th>Decrease</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>20XX</td>
<td>400.00</td>
<td>400.00</td>
<td>400.00</td>
</tr>
<tr>
<td>Jan</td>
<td>400.00</td>
<td>800.00</td>
<td>1,200.00</td>
</tr>
<tr>
<td>Feb</td>
<td>400.00</td>
<td>1,200.00</td>
<td>2,400.00</td>
</tr>
<tr>
<td>Mar</td>
<td>400.00</td>
<td>1,600.00</td>
<td>2,400.00</td>
</tr>
<tr>
<td>Apr</td>
<td>400.00</td>
<td>2,000.00</td>
<td>2,400.00</td>
</tr>
<tr>
<td>May</td>
<td>400.00</td>
<td>2,400.00</td>
<td>2,400.00</td>
</tr>
<tr>
<td>Jun</td>
<td>400.00</td>
<td>2,800.00</td>
<td>2,400.00</td>
</tr>
</tbody>
</table>

Keeping Records

The IRS says you must keep your records for as long as they may be needed to administer any IRS provision. Keep records that support an item of income or deduction on a return until the statute of limitations runs out — usually three years after the return is due or filed, or two years from the date the tax was paid, whichever occurs later.

You may wish to keep your records for a longer period. For instance, journals and ledgers should be kept indefinitely. Supporting documents can be discarded whenever you stop using them, provided it is past the three-year statute of limitations.

Business Versus Personal Records

Your business records must be kept separate from personal records. Do not commingle funds or information. If you have more than one business, you must keep a set of records for each business. For example, if you own a consulting firm and a car wash, you would need to keep three sets of records: one for each of the businesses and one for your personal records.

Getting Started

Ideally, getting your bookkeeping system up and running would occur at the time the first sales or expense has been incurred. The sooner you have your system in place and ready to accept the information from your business operations, the smoother the job of planning, controlling, and budgeting will be. Be accurate when recording dollar amounts of cash in and cash out, and keep supporting documents in your files. As you get more experienced, this process will become easier to handle. Above all, stay on top of your bookkeeping.

The IRS website contains a special section for small business and the self-employed. It offers a broad range of resources across federal and state agencies, as well as industry/profession specific information for self-employed entrepreneurs, employers and businesses.
Here are the IRS site addresses that might be of specific interest:


IRS forms in espanol - http://www.irs.gov/espanol/article/0,,id=132230,00.html

Valuation of New Technology Companies

A valuation of a new technology company must be agreed upon by the principals of the company and the investors. This will establish the size of the equity stake that the investor will receive in exchange for the investors’ funds. The following is a list of articles, books, and resources that provide information about valuing startup and technology companies:

ASEAN-USPTO Program on Technology Transfer-Technology Valuation Methods and Case Studies
By Marcel D. Mongeon
www.slideshare.net/marcelm/technology-valuation-methods

Business Valuation – What Will Your Company Sell For?
By Strategic Exits Corp.
1) www.exits.com/
2) www.angelblog.net/Business_V aluation_-_What_will_your_company_sell_for.html

The Dark Side of Valuation: Valuing Young, Distressed, and Complex Businesses (2nd Edition)
By Aswath Damodaran, FT Press, July 2009

High Tech Startup Valuation Estimator, Cayenne Consulting, LLC
www.caycon.com/valuation.php

How to Value a Young Company
By Martin Zwilling, Forbes.com, September 2009

How to Value Your Startup; These three steps will help you determine what your new business is worth
By Asheesh Advani, Entrepreneur.com
www.entrepreneur.com/article/72384#ixzz2gZHupfl2

Valuation Considerations for High Technology Companies
By The Brenner Group, July 2008

Valuation of Early Stage Companies
By Greg N. Robin and Jason M, Malak, Cogent Valuation
www cogentvaluation.com/

Valuing an Early-Stage Company
By Karen E. Klein, Businessweek.com, April 30, 2010
www.businessweek.com/smallbiz/content/apr2010/sb20100429_990157.htm
Valuing Early Stage Technologies
By Pellegrino and Associates; published in the May/June 2007 issue of Valuation Strategies Magazine by Thomson Tax & Accounting

Valuing Pre-revenue Companies; a Collection of Articles and Tools
Various authors, published by the Kauffman Foundation in 2007

Valuing Young, Startup and Growth Companies: Estimation Issues and Valuation Challenges
By Aswath Damodaran, Stern School of Business, New York University, May 2009
http://people.stern.nyu.edu/adamodar/pdfiles/papers/younggrowth.pdf
New York State Resources

Empire State Development – Regional Technology Development Centers
esd.ny.gov/nystar/RegionalTechCtrs.asp
Provides entrepreneurial and business assistance as well as financial, venture capital, and grant information to companies across New York State. The centers help new and emerging businesses move a new technological breakthrough from the research lab to the marketplace, provide education and training, help companies implement best practices and new technologies into their business processes, and provide business planning and quality control guidance.

Innovate NY Fund
www.esd.ny.gov/BusinessPrograms/InnovateNY.html
A seed stage business equity fund with up to $45 million to support innovation, job creation, and high growth entrepreneurship throughout the state.

New York Small Business Development Center – Technology Services
www.nyssbdc.org/services/tech/tech.html
The NYS SBDC can help you transform your ideas into products and services, whether you want to work on carburetors, computer chips, or capillaries.

Federal Resources

SBIR-STTR (Small Business Innovation Research-Small Business Technology Transfer)
www.sbir.gov

SBIR/STTR Opportunities
www.win-sbir.com
Current news and information

U.S. Patent and Trademark Office (USPTO)
www.uspto.gov/
Search patent and trademark databases; review laws & regulations

U.S. Small Business Administration – SBIR-STTR Programs
www.sba.gov/content/small-business-innovation-research-program-sbir
**Other Resources**

*The Entrepreneur’s Guide - Entrepreneurship.org Resource Center*
www.entrepreneurship.org/Resource-Center.aspx

*Sample Technology Business Plan from Bplans.com*

*Wall Street Journal – Start-up Journal*
online.wsj.com/public/page/small-business.html?refresh=on&mg=reno64-wsj

**Angel Networks in NYS**

*ARC Angel Fund (NYC)*
arcanelfund.com/

*Buffalo Angels*
www.wnyventure.com/buffalo-angels

*Eastern New York Angels*
easternnyangels.com/

*Golden Seeds (NYC, Boston, Silicon Valley)*
www.goldenseeds.com/

*Life Sciences Angel Network (NYC – NY Academy of Sciences)*
www.nyas.org/WhatWeDo/Innovation/lsanintro.aspx

*Long Island Angel Network*
www.liangels.net/

*New York Angels (NYC)*
newyorkangels.com/

*Rochester Angel Network*
www.rochesterangels.com/

*Seed Capital Fund of Central NY*
www.scfcny.com/

*Star Angel Network*
starangelneg.com/

*TriState Ventures (NYC)*
www.tristateventures.com/
Venture Capital Funds in NYS

*Canrock Ventures (NYC & Long Island)*
www.canrockventures.com

*Cayuga Venture Fund (Southern Tier and Western NY)*
www.cvf.biz/

*Excell Partners (Finger Lakes and Western NY)*
excellny.com/

*ff Venture Capital*
www.ffvc.com/

*Golden Seeds (NYC)*
www.goldenseeds.com/Venture-Capital.aspx

*New York Venture Capital Association (NYC)*
www.nyvca.org/

*SCP Incubators/Z80 Lab (Buffalo & Western New York)*
z80labs.com/index.html

*Stonehenge Growth Capital*
www.stonehengegrowthcapital.com

*Western New York Venture Association*
www.wnyventure.com/
Patents and Trademarks

Patents

A patent is an intellectual property right granted by the Government of the United States to an inventor “to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States” for a limited time in exchange for public disclosure of the invention when the patent is granted.

There are three types of patents:

1) Utility patents may be granted to anyone who invents or discovers any new and useful process, machine, article of manufacture, or composition of matter, or any new and useful improvement thereof. Here is the process for obtaining a utility patent.

2) Design patents may be granted to anyone who invents a new, original, and ornamental design for an article of manufacture.

3) Plant patents may be granted to anyone who invents or discovers and asexually reproduces any distinct and new variety of plant.

Patents Ombudsman

The Patents Ombudsman Program is designed to enhance the USPTO’s ability to assist applicants with issues that arise during the patent application process. More specifically, when there is a breakdown in the normal prosecution process, the Ombudsman Program can assist in getting the process back on track. To request assistance from the Ombudsman Program, visit: www.uspto.gov/patents/ombudsman.jsp

For more information about patents and to conduct an online search of the patent database, visit www.uspto.gov/patents/

Trademarks

A trademark is a brand name. A trademark or service mark includes any word, name, symbol, device, or any combination, used or intended to be used to identify and distinguish the goods/services of one seller or provider from those of others, and to indicate the source of the goods/services. Although federal registration of a mark is not mandatory, it has several advantages, including notice to the public of the registrant's claim of ownership of the mark, legal presumption of ownership nationwide, and exclusive right to use the mark on or in connection with the goods/services listed in the registration.

It’s important to understand whether you should file for a trademark/service mark, a patent, and/or a copyright. While all are types of intellectual property, each protects something very specific. Please study
how trademarks, patents, and copyrights differ to ensure you are making the proper filing decision at the outset of the filing process.

Although not required, most applicants use private trademark attorneys for legal advice regarding use of their trademark, filing an application, and the likelihood of success in the registration process, since not all applications proceed to registration. A private trademark attorney (not associated with the USPTO) may help you avoid many potential pitfalls. To locate an attorney, consult your local telephone listings or contact the attorney referral service of a state bar or local bar association (see American Bar Association’s Consumers’ Guide to Legal Help). The USPTO cannot provide you with legal advice or help you select an attorney.

Attorneys generally charge a fee for their services, but some attorneys and bar associations may offer free or greatly reduced services to financially under-resourced individuals and small businesses. The USPTO has interacted with intellectual property ("IP") law associations to encourage the establishment of such pro bono programs, including the American Bar Association. The International Trademark Association also has a committee dedicated to raising awareness about IP pro bono issues globally. The USPTO’s reference of these resources is for informational purposes only.

Trademark Assistance Center

If an attorney is not being used, other possible resources do exist: for general trademark information, please e-mail TrademarkAssistanceCenter@uspto.gov, or telephone 1-800-786-9199; if you need help in resolving technical glitches when using the Trademark Electronic Application System (TEAS), please e-mail teas@uspto.gov. Please include your telephone number in your e-mail.

You may also seek assistance through a participating law school clinic program or a Patent and Trademark Resource Center.

Other Considerations

Before starting the application process, it is important to have clearly in mind (1) the mark you want to register; (2) the goods and/or services in connection with which you wish to register the mark; and (3) whether you will be filing the application based on actual existing use of the mark or a bona fide intention to use the mark in the future. This will make your search of the USPTO database more useful and may simplify the application process. More details on mark types, goods and services, filing basis, and searching are provided in the next four sections.

You are responsible for enforcing your rights if you receive a registration, because the USPTO does not "police" the use of marks. While the USPTO attempts to ensure that no other party receives a federal registration for an identical or similar mark for or as applied to related goods/services, the owner of a registration is responsible for bringing any legal action to stop a party from using an infringing mark.

For more information about trademarks and to conduct an online search of the trademark database, visit www.uspto.gov/trademarks

www.uspto.gov/trademarks
Research Foundation of SUNY's Technology Transfer Offices

The Research Foundation of SUNY's Technology Transfer Central Office administers the intellectual property activities of 27 state campuses. The University Centers at Albany, Binghamton, Buffalo, and Stony Brook, however, have their own local Technology Transfer offices which handle their own activities. For information on activities administered by these campuses, please directly contact that office.

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Small Business Innovation Research (SBIR)
Small Business Technology Transfer (STTR)

The Small Business Administration is the coordinating agency for the SBIR program. It directs the 11 agencies’ implementation of SBIR, reviews their progress, and reports annually to Congress on its operation. SBA is also the information link to SBIR. SBA collects solicitation information from all participating agencies and publishes it quarterly in a Pre-Solicitation Announcement (PSA). The PSA is a single source for the topics and anticipated release and closing dates for each agency's solicitations. STTR is an important small business program that expands funding opportunities in the federal innovation research and development arena. Central to the program is expansion of the public/private sector partnership to include the joint venture opportunities for small business and the nation's premier nonprofit research institutions. STTR's most important role is to foster the innovation necessary to meet the nation's scientific and technological challenges in the 21st century.

The SBIR Program

The Small Business Innovation Research (SBIR) program is a highly competitive program that encourages domestic small businesses to engage in Federal Research/Research and Development (R/R&D) that has the potential for commercialization. Through a competitive awards-based program, SBIR enables small businesses to explore their technological potential and provides the incentive to profit from its commercialization. By including qualified small businesses in the nation's R&D arena, high-tech innovation is stimulated and the United States gains entrepreneurial spirit as it meets its specific research and development needs.

The mission of the SBIR program is to support scientific excellence and technological innovation through the investment of Federal research funds in critical American priorities to build a strong national economy.

The program’s goals are four-fold:

• Stimulate technological innovation
• Meet Federal research and development needs.
• Foster and encourage participation in innovation and entrepreneurship by socially and economically disadvantaged persons.
• Increase private-sector commercialization of innovations derived from Federal research and development funding.

SBIR-Participating Agencies

Each year, Federal agencies with extramural research and development (R&D) budgets that exceed $100 million are required to allocate 2.5 percent of their R&D budget to these programs. Currently, eleven Federal agencies participate in the program:

• Department of Agriculture
• Department of Commerce - National Institute of Standards and Technology
• Department of Commerce - National Oceanic and Atmospheric Administration
• Department of Defense
• Department of Education
Each agency administers its own individual program within guidelines established by Congress. These agencies designate R&D topics in their solicitations and accept proposals from small businesses. Awards are made on a competitive basis after proposal evaluation.

Three-Phase Program

The SBIR Program is structured in three phases:

**Phase I** - The objective of Phase I is to establish the technical merit, feasibility, and commercial potential of the proposed R/R&D efforts and to determine the quality of performance of the small business awardee organization prior to providing further Federal support in Phase II. SBIR Phase I awards normally do not exceed $150,000 total costs for 6 months.

**Phase II** - The objective of Phase II is to continue the R/R&D efforts initiated in Phase I. Funding is based on the results achieved in Phase I and the scientific and technical merit and commercial potential of the project proposed in Phase II. Only Phase I awardees are eligible for a Phase II award. SBIR Phase II awards normally do not exceed $1,000,000 total costs for 2 years.

**Phase III** - The objective of Phase III, where appropriate, is for the small business to pursue commercialization objectives resulting from the Phase I/II R/R&D activities. The SBIR program does not fund Phase III. Some Federal agencies, Phase III may involve follow-on non-SBIR funded R&D or production contracts for products, processes or services intended for use by the U.S. Government.

**SBIR Program Eligibility**

Only United States small businesses are eligible to participate in the SBIR program. Business must meet all of the following criteria at the time of Phase I and II awards:

- Organized for profit, with a place of business located in the United States;
- At least 51 percent owned and controlled by one or more individuals who are citizens of, or permanent resident aliens in, the United States, or
- At least 51 percent owned and controlled by another for-profit business concern that is at least 51% owned and controlled by one or more individuals who are citizens of, or permanent resident aliens in, the United States; and;
- No more than 500 employees, including affiliates.

SBIR differs from STTR in two important aspects:

1. The principal investigator must have primary employment with the SBC (unless a waiver is granted by the agency).
2. SBIR encourages but does not require the SBC to partner with a research institution.
The STTR Program

Small Business Technology Transfer (STTR) is another program that expands funding opportunities in the federal innovation research and development (R&D) arena. Central to the program is expansion of the public/private sector partnership to include the joint venture opportunities for small businesses and nonprofit research institutions. The unique feature of the STTR program is the requirement for the small business to formally collaborate with a research institution in Phase I and Phase II. STTR’s most important role is to bridge the gap between performance of basic science and commercialization of resulting innovations.

The mission of the STTR program is to support scientific excellence and technological innovation through the investment of Federal research funds in critical American priorities to build a strong national economy.

The programs’ goals are to:

- Stimulate technological innovation
- Foster technology transfer through cooperative R&D between small businesses and research institutions
- Increase private sector commercialization of innovations derived from federal R&D

STTR-Participating Agencies

Each year, Federal agencies with extramural research and development (R&D) budgets that exceed $1 billion are required to reserve 0.3% of the extramural research budget for STTR awards to small businesses. These agencies designate R&D topics and accept proposals.

Currently, five agencies participate in the STTR program:

- Department of Defense
- Department of Energy
- Department of Health and Human Services
- National Aeronautics and Space Administration
- National Science Foundation

Each agency administers its own individual program within guidelines established by Congress. These agencies designate R&D topics in their solicitations and accept proposals from small businesses. Awards are made on a competitive basis after proposal evaluation.

Three-Phase Program

The STTR Program is structured in three phases

Phase I - The objective of Phase I is to establish the technical merit, feasibility, and commercial potential of the proposed R/R&D efforts and to determine the quality of performance of the small businesses prior to providing further Federal support in Phase II. STTR Phase I awards normally do not exceed $100,000 total costs for 1 year.

Phase II - The objective of Phase II is to continue the R/R&D efforts initiated in Phase I. Funding is based on the results achieved in Phase I and the scientific and technical merit and commercial potential of the Phase II project proposed. Only Phase I awardees are eligible for a Phase II award. STTR Phase II awards normally do not exceed $750,000 total costs for 2 years.
**Phase III** - The objective of Phase III, where appropriate, is for the small business to pursue commercialization objectives resulting from the Phase I/II R/R&D activities. The STTR program does not fund Phase III. In some Federal agencies, Phase III may involve follow-on non-STTR funded R&D or production contracts for products, processes or services intended for use by the U.S. Government.

**STTR Program Eligibility**

Only United States small businesses are eligible to participate in the STTR program. The small business must meet all of the following criteria at time of award:

- Organized for profit, with a place of business located in the United States;
- At least 51 percent owned and controlled by one or more individuals who are citizens of, or permanent resident aliens in, the United States, and;
- No more than 500 employees, including affiliates.

The nonprofit research institution must also meet certain eligibility criteria:

- Located in the US
- Meet one of three definitions:
  - Nonprofit college or university
  - Domestic nonprofit research organization
  - Federally funded R&D center (FFRDC)

STTR differs from SBIR in three important aspects:

1. The SBC and its partnering institution are required to establish an intellectual property agreement detailing the allocation of intellectual property rights and rights to carry out follow-on research, development or commercialization activities.
2. STTR requires that the SBC perform at least 40% of the R&D and the single partnering research institution to perform at least 30% of the R&D.
3. Unlike the SBIR program, STTR does not require the Principal Investigator to be primarily employed by the SBC.

For more information, visit the SBIR/STTR website: [http://www.sbir.gov/](http://www.sbir.gov/)
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